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C O N F I D E N T I A L SECTION 01 OF 02 BAKU 000385

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TAGS: ECON EINV ETRD ELTN PREL PGOV AJ

SUBJECT: AZERBAIJAN: BECHTEL SVP MEETS WITH PRESIDENT ALIEV, MINISTERS

Classified By: Ambassador Anne E.Derse, Reasons 1.4 (b,d)

¶1. (C) SUMMARY. In a March 29 meeting with Ambassador Derse and Bechtel Senior Vice President (Amb) Charles Redman, President Aliyev said that "it would be good for Azerbaijan" if Bechtel could find a project to do here. In this meeting and in a subsequent separate meeting with the Transportation Minister, Redman explained that Bechtel was seeking a major road infrastructure project of strategic importance that needed to be done quickly and up to world class standards. Although the Transportation Minister could not find a project about which Redman was enthusiastic, Redman agreed to send an expert to Baku for further discussions. END SUMMARY

¶2. (C) On March 29, Bechtel Senior Vice President and Region President for Europe/Africa/Middle East/South West Asia (Ambassador - Retired) Charles E. Redman visited Azerbaijan to see if there were business opportunities for Bechtel. After a breakfast meeting with selected members of the American Chamber of Commerce, he met President Ilham Aliyev (accompanied by Ambassador Derse and Econ/Commercial Officer). He also had separate meeting with Economic Development Minister Haydar Babayev, Transportation Minister Ziya Mammadov, Emergency Situations Kamaladdin Heydarov, and Presidential Advisor Ali Asadov. In all meetings other than the Presidential one, he was accompanied by Commercial Officer and Embassy Commercial Assistant.

PRESIDENT ALIYEV WANTS BECHTEL...

¶3. (C) In meeting with President Aliyev and his economic advisor Ali Asadov, Redman briefed President Aliyev on Bechtel, adding that he was responsible for Bechtel business operations in over 150 countries. He said he came to Baku because he sensed that with Azerbaijan's dawning economic prosperity there might be an opportunity for Bechtel to help modernize its infrastructure. Redman explained that Bechtel only initiated a few projects worldwide each year, and that certain conditions had to be present in order for Bechtel to engage. He said that Bechtel was looking for a situation where there was a large and complex project of strategic importance that had to be accomplished quickly and to world-class standards. He said that a typical Bechtel project would be a greenfield highway project where a government needed it built quickly. He contrasted this 'Bechtel method' with what he described as the usual method of road construction, where different parts of a strategically important major road are built by different companies funded by different entities such as the World Bank or EBRD, with the financing and construction taking so long that ultimately it takes ten to fifteen years for the road to

be built, in contrast to the three years it would have taken Bechtel. Additionally many of the roads built in this manner require repair soon after their construction, negating any 'savings' on the front end. Redman also pointed out that Bechtel, along with Boeing, is a major client of the Exim Bank, which would traditionally provide credit for up to thirty percent of a Bechtel project, to say nothing of secondary financing that Exim Bank presence usually made possible.

¶4. (C) President Aliyev said he was well aware of Bechtel's excellent reputation and was eager for Bechtel to play a role in developing Azerbaijani infrastructure. Pointing out that Azerbaijan had three major roads (one to Georgia, one to Russia and one to Iran) Aliyev said there were many major road projects where Bechtel could find an appropriate opportunity. "Over one thousand kilometers of road are being or need to be built," Aliyev emphasized. There are also major inter-city roads that need to be built. In general, Aliyev said that Azerbaijan "needs to modernize the entire road structure." Aliyev wryly agreed with Redman that the normal method of road construction, doled out among contractors and financial institutions and dragged out over years as Azerbaijan had done thus far, was unsatisfactory, adding that EBRD and World Bank worked "too slowly" for his taste.

¶5. (C) Aliyev said that Azerbaijan was investing a lot in infrastructure, to include having amounts allocated in the budget. If financing were slowing a project down, the GOAJ would fund the project itself. Aliyev repeated that Bechtel could easily find a project in Azerbaijan to suit its criteria, adding that Bechtel could choose a

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thousand-kilometer project that has to be done by 2010. Given Bechtel's reputation, it would be very good for Azerbaijan if Bechtel were active in Azerbaijan. Alluding to a follow-on meeting later in the day between Redman and the Transportation Minister, Aliyev said that the MOT would present what has been done and what remains to be done, and that his economic advisor Ali Asadov would be the POC for Redman.

...BUT TOUGH FINDING A FIT?

¶6. (C) In the subsequent meeting with Transportation Minister Mammadov, it was clear that the Minister had been told by the President to find a project for Bechtel; indeed he told Redman that he had been briefed by the President's office just before the meeting. Also present at the meeting was Javid Ghorbanov, Member of Parliament and head of AzerRoadService Open Joint-Stock Company ("Azeryol"). Redman repeated the presentation he had made earlier to President Aliyev. Transportation Minister Mammadov seemed fixed less on the possibilities of strategic infrastructure upgrade that Bechtel could bring and more on what financing and sources of money a deal with Bechtel could bring with it. However, when Redman made clear that Exim funding would come only with a specific Bechtel deal, and would probably be no more than thirty percent of overall funding, Mammadov lost interest in the topic of financing.

¶7. (C) Ghorbanov pressed Redman on a "typical price" for any proposed Bechtel road project. After extensive caveats, Redman said that a typical 'greenfield' type road could cost approximately five to six million dollars per kilometer, an amount that struck Minister Mammadov and Ghorbanov as quite expensive. Transportation Minister Mammadov told Redman that the major road projects (Georgia, Russia, Iran) had been already contracted out or put to tender, although given President Aliyev's interest, the MOT could always find sections of road for Bechtel, a proposal to which Redman seemed less than enthusiastic. Redman was similarly unenthusiastic about the Transportation Minister's proposed

project for Bechtel: a new ring road around Baku, with construction on existing roads through heavily populated parts of the Baku peninsula. After much back and forth, the Transportation Minister and Redman agreed that a Bechtel expert would come to Baku for further discussion of road infrastructure possibilities.

¶8. (C) In a subsequent meeting with Presidential Advisor Ali Asadov, Redman briefed him on his meeting with the Transportation Minister. He explained that there was "nothing wrong nor anyone to blame" if there were no 'fit' for Bechtel currently in Azerbaijan, and that Bechtel didn't want to waste Azerbaijan's time and money just for the sake of "finding something to do" in Azerbaijan. After hearing him out, Asadov agreed that the next step would be having a Bechtel expert travel to Azerbaijan to discuss possible projects with MOT.

¶9. (C) COMMENT: Clearly President Aliyev wants Bechtel to engage in Azerbaijan. As he himself said, Bechtel has a good reputation for quality, and he can trust Bechtel to do a good job. No doubt he is also fully aware that Bechtel's presence in Azerbaijan would be a strong signal that major Western companies can do business in Azerbaijan. Just as clearly, Bechtel's Redman was less than enthused about the projects pitched to him by the Transportation Ministry. Given the rather limited criteria that Redman stipulated for a project in Azerbaijan, combined with the fact that most major road projects have already been doled out, it remains to be seen whether Bechtel and Azerbaijan can find a fit. Embassy will work with Bechtel and with the GOAJ to help find this fit.

END COMMENT.

DERSE